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RR RUEHGH
DE RUEHIN #4078 3420547
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R 080547Z DEC 06
FM AIT TAIPEI
TO RUEHC/SECSTATE WASHDC 3375
INFO RUCPDOC/USDOC WASHDC
RUEHBK/AMEMBASSY BANGKOK 3502
RUEHBJ/AMEMBASSY BEIJING 6066
RUEHUL/AMEMBASSY SEOUL 8314
RUEHGP/AMEMBASSY SINGAPORE 6716
RUEHKO/AMEMBASSY TOKYO 8286
RUEHML/AMEMBASSY MANILA 9863
RUEHJA/AMEMBASSY JAKARTA 3961
RUEHKL/AMEMBASSY KUALA LUMPUR 3612
RUEHHI/AMEMBASSY HANOI 3176
RUEHBY/AMEMBASSY CANBERRA 4391
RUEHWL/AMEMBASSY WELLINGTON 1642
RUEHHK/AMCONSUL HONG KONG 7288
RUEHGH/AMCONSUL SHANGHAI 0614
RUEHGZ/AMCONSUL GUANGZHOU 9801
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS TAIPEI 004078

SIPDIS

SIPDIS, SENSITIVE BUT UNCLASSIFIED

STATE PLEASE PASS AIT/W AND USTR
STATE FOR EAP/TC, EAP/EP
USTR FOR ALTBACH
USDOC FOR 4420/USFCS/OCEA/EAP/LDROKER
USDOC FOR 3132/USFCS/OIO/EAP/ADAVENPORT
TREASURY FOR OASIA/LMOGHTADER
TREASURY PLEASE PASS TO OCC/AMCMAHON
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN

E.O. 12958: N/A

TAGS: [EINV](#) [EFIN](#) [ECON](#) [PINR](#) [TW](#)

SUBJECT: NT Dollar Loans to Foreign Borrowers

Ref: Taipei 2695

SUMMARY

¶1. (U) Taiwan's monetary authorities in November started permitting banking institutions to lend NT Dollars (NTD) to foreign borrowers in Taiwan which may be used to finance direct investment, securities trading, and real estate purchases. The new measure relaxes the conditions for using NTD loans as direct foreign investment (reported reftel) and is designed to reduce Taiwan's excess liquidity. End summary.

Industry Regulations

¶2. (U) On November 13, Taiwan's Central Bank of China (CBC) and the Financial Supervisory Commission (FSC) issued a joint statement that banking institutions will be permitted to lend NTD to foreign borrowers without residence in Taiwan after the Bankers Association adopts a set of voluntary regulations, which it did late November.

Relaxation

¶3. (U) According to the CBC, qualified foreign borrowers may be foreign individuals without permanent residence or foreign corporations without registration in Taiwan. NTD loans to these foreign borrowers may be used to finance such activities as securities trading, real estate purchases, direct investment projects, and acquisition and mergers. These NTD loans must be secured with collateral, except for intra-day loans which are used to pay for stocks purchased earlier the same day.

To Reduce Excess Liquidity

¶4. (U) A CBC official told AIT/T that the new measure is designed to reduce excess liquidity which has kept yield rates on 10-year public bonds below 2%, the second lowest in the world after only Japan. The CBC official said low interest rates in Taiwan should attract foreign investors to use NTD loans to do merger and acquisitions (M&A) here. He further noted low interest will also attract hedge funds to borrow NTD loans to finance securities transactions. The CBC estimated that NTD loans required annually by hedge funds and foreign securities firms may reach NT\$1.32 trillion (US\$40 billion), equivalent to 90% of total postal savings currently placed on deposit with the CBC.

COMMENT

¶5. (SBU) It is unsound to expect hedge funds to resolve domestic excess liquidity problems. The November 13 relaxation measure indicates the CBC's desperation to address excess liquidity issues which have remained in spite of the July 2006 measure permitting secured NTD loans to serve as foreign direct investment in Taiwan (reftel). The CBC needs to issue additional negotiable certificates of deposit to absorb excess liquidity from the banking system. The best solution would be a substantial expansion of private consumption and private investment.

Young